

CAPITAL SOUTHWEST CORP
Form 10-Q
February 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period fromto

Commission File Number: 814-00061

CAPITAL SOUTHWEST CORPORATION
(Exact name of registrant as specified in its charter)

Texas 75-1072796
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5400 Lyndon B Johnson Freeway, Suite 1300, Dallas, Texas 75240
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (972) 233-8242

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such filings). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

15,720,032 shares of Common Stock, \$0.25 value, as of February 8, 2016.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands of dollars, except shares and per share data)

| | December 31, 2015 (Unaudited) | March 31, 2015 (Audited) |
|---|--|-----------------------------------|
| Assets | | |
| Investments at market or fair value | | |
| Non-Control/Non-Affiliate investments (Cost: December 31, 2015 - \$72,951, March 31, 2015 - \$45,620) | \$ 72,946 | \$ 37,776 |
| Affiliate investments (Cost: December 31, 2015 - \$444, March 31, 2015 - \$6,944) | 2,465 | 8,345 |
| Control investments (Cost: December 31, 2015 - \$34,215, March 31, 2015 - \$12,396) | 59,524 | 489,415 |
| Total investments (Cost: December 31, 2015 - \$107,610, March 31, 2015 - \$64,960) | 134,935 | 535,536 |
| Cash and cash equivalents | 143,680 | 225,797 |
| Receivables | | |
| Dividends and interest | 695 | 77 |
| Escrow | 3,424 | 2,854 |
| Other | 514 | 1,392 |
| Income tax receivable | 1,018 | 95 |
| Net pension assets | - | 10,294 |
| Deferred tax asset | 1,544 | - |
| Other assets | 770 | 827 |
| Total assets | \$ 286,580 | \$ 776,872 |
| Liabilities | | |
| Other liabilities | \$ 5,780 | \$ 4,923 |
| Payable for unsettled transaction | 4,850 | - |
| Income tax payable | 2,948 | - |
| Accrued restoration plan liability | 2,217 | 3,119 |
| Deferred income taxes | - | 1,412 |
| Total liabilities | 15,795 | 9,454 |
| Commitments and Contingencies (Note 10) | | |
| Net Assets | | |
| Common stock, \$0.25 par value: authorized, 25,000,000 shares; issued, 18,064,044 shares at December 31, 2015 and 17,904,844 shares at March 31, 2015 | 4,516 | 4,476 |
| Additional capital | 279,455 | 298,338 |
| Accumulated net investment loss | (16,574) | (4,390) |
| Accumulated net realized gain | - | 22,355 |
| Unrealized appreciation of investments | 27,325 | 470,576 |
| Treasury stock - at cost, 2,339,512 shares | (23,937) | (23,937) |
| Total net assets | 270,785 | 767,418 |
| Total liabilities and net assets | \$ 286,580 | \$ 776,872 |
| | \$ 17.22 | \$ 49.30 |

Net asset value per share (15,724,532 shares outstanding at December 31, 2015 and 15,565,332 at March 31, 2015)

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands)

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---------------------------------------|-----------|-----------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Investment income: | | | | |
| Interest and dividends | | | | |
| Non-control/Non-affiliate investments | \$1,282 | \$233 | \$2,527 | \$890 |
| Affiliate investments | - | - | - | - |
| Control investments | 1,612 | 7,300 | 1,912 | 7,900 |
| Interest income from cash and cash equivalents | 133 | 33 | 292 | 70 |
| Fees and other income | 280 | 147 | 618 | 428 |
| | 3,307 | 7,713 | 5,349 | 9,288 |
| Operating expenses: | | | | |
| Compensation | 1,675 | 1,120 | 5,629 | 3,516 |
| Spin-off compensation plan | 461 | - | 1,131 | - |
| Share-based compensation | 195 | 95 | 923 | 287 |
| Spin-off Professional Fees | 249 | - | 6,961 | - |
| General and Administrative | 1,354 | 2,018 | 3,378 | 3,505 |
| | 3,934 | 3,233 | 18,022 | 7,308 |
| (Loss) income before income taxes | (627) | 4,480 | (12,673) | 1,980 |
| Income tax (benefit) expense | (607) | 51 | (489) | 273 |
| Net investment (loss) income | \$(20) | \$4,429 | \$(12,184) | \$1,707 |
| Realized (loss) gain: | | | | |
| Non-control/Non-affiliate investments | \$(6,259) | \$111,229 | \$(9,591) | \$143,084 |
| Affiliate investments | (2,142) | - | (1,458) | - |
| Control investments | 231 | - | 231 | (1,175) |
| Total net realized (loss) gain on investments before income tax | (8,170) | 111,229 | (10,818) | 141,909 |
| Net increase (decrease) in unrealized appreciation of investments | 7,060 | (84,964) | 12,939 | (123,791) |
| Net realized and unrealized gain (loss) on investments | (1,110) | 26,265 | 2,121 | 18,118 |
| (Decrease) increase in net assets from operations | \$(1,130) | \$30,694 | \$(10,063) | \$19,825 |
| Net investment (loss) income per share – basic and diluted | \$(.00) | \$.28 | \$(.77) | \$.11 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(In thousands)

| | Nine Months Ended December 31, | |
|---|-----------------------------------|-----------|
| | 2015 | 2014 |
| Operations: | | |
| Net investment (loss) gain | \$(12,184) | \$1,707 |
| Net realized (loss) gain on investments | (10,818) | 141,909 |
| Net increase (decrease) in unrealized appreciation of investments | 12,939 | (123,791) |
| (Decrease) increase in net assets from operations | (10,063) | 19,825 |
| Distributions from: | | |
| Undistributed net investment loss | - | (3,083) |
| Undistributed net realized gain | (1,544) | - |
| Taxes incurred on deemed capital gain distributions | (2,948) | (54,370) |
| Distributions of CSW Industrials, Inc. | | |
| Decrease in unrealized appreciation related to spin-off investments | (456,189) | - |
| Distribution from additional capital | (27,199) | - |
| Capital share transactions: | | |
| Exercise of employee stock options | 387 | 163 |
| Share-based compensation expense | 923 | 287 |
| Decrease in net assets | (496,633) | (37,178) |
| Net assets, beginning of period | 767,418 | 770,388 |
| Net assets, end of period | \$270,785 | \$733,210 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Nine Months Ended December 31, | |
|--|-----------------------------------|------------|
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| (Decrease) increase in net assets from operations | \$ (10,063) | \$ 19,825 |
| Adjustments to reconcile (decrease) increase in net assets from operations to net cash used in operating activities: | | |
| Depreciation and amortization | 63 | 29 |
| Net pension benefit | (296) | (410) |
| Net realized loss (gain) on investments | 10,818 | (141,909) |
| Net (increase) decrease in unrealized appreciation of investments | (12,939) | 123,791 |
| Share-based compensation expense | 923 | 287 |
| Increase in dividend and interest receivable | (618) | (6,587) |
| Increase in escrow receivables | (570) | - |
| Decrease (increase) in other receivables | 878 | (303) |
| Increase in income tax receivable | (923) | (97) |
| Increase in other assets | (4) | (589) |
| (Decrease) Increase in other liabilities | (64) | 13 |
| Increase in payable for unsettled transaction | 4,850 | - |
| Increase in deferred income taxes | 434 | 70 |
| Net cash used in operating activities | (7,511) | (5,880) |
| Cash flows from investing activities | | |
| Net proceeds from disposition of and return of capital on investments | 19,638 | 170,598 |
| Purchases of securities | (80,087) | (525) |
| Net cash (used in) provided by Investing activities | (60,449) | 170,073 |
| Cash flows from financing activities | | |
| Distributions from undistributed net investment income | - | (3,083) |
| Distributions from undistributed net realized gain | (1,544) | - |
| Proceeds from exercise of employee stock options | 387 | 163 |
| Cash distribution to CSW Industrials | (13,000) | - |
| Net cash used in financing activities | (14,157) | (2,920) |
| Net (decrease) increase in cash and cash equivalents | (82,117) | 161,273 |
| Cash and cash equivalents at beginning of period | 225,797 | 88,163 |
| Cash and cash equivalents at end of period | \$ 143,680 | \$ 249,436 |
| Summary of Non-Cash Financing Activities | | |
| Cost of Investments spun-off ¹ | \$6,981 | \$- |
| Decrease in unrealized appreciation due to the spin-off of CSWI ¹ | 456,189 | - |
| Net Pension Assets ¹ | 9,687 | - |
| Change in deferred tax liabilities ¹ | 3,391 | - |
| Taxes incurred on deemed capital gain distribution | 2,948 | 54,370 |
| Cash component of Spin-Off Compensation for CSWI employees | 921 | - |

¹These non-cash items are related to the spin-off of CSW Industrials Inc. at September 30, 2015.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

December 31, 2015

| Portfolio Company ¹ | Type of Investment | Industry | Spread Above Maturity Index ² | Principal | Cost | Value ³ |
|--|--|----------------------------------|--|-------------|-------------|--------------------|
| Non-control/Non-affiliate Investments ⁴ | | | | | | |
| 360 HOLDINGS III CORP. | Senior secured debt | Consumer products & retail | L+9.00% (Floor 10/1/2021 1.00%) | \$7,000,000 | \$6,720,780 | \$6,720,780 |
| ARGON MEDICAL DEVICES | Senior secured debt | Healthcare products | L+9.50% (Floor 12/23/2021 1.00%) | 5,000,000 | 4,850,000 | 4,850,000 |
| BDF ACQUISITION CORP. | Senior secured debt | Consumer products & retail | L+8.00% (Floor 2/12/2022 1.00%) | 5,000,000 | 4,797,023 | 4,797,023 |
| CAST AND CREW PAYROLL, LLC | Senior secured debt | Media, marketing & entertainment | L+7.75% (Floor 8/12/2023 1.00%) | 5,000,000 | 4,969,697 | 4,969,697 |
| DEEPWATER CORROSION SERVICES, INC. | 127,004 shares of Series A convertible preferred stock | Energy services (upstream) | - | - | 8,000,000 | 4,281,000 |
| FREEDOM TRUCK FINANCE, LLC ^{5,6} | Senior secured debt | Financial services | Prime plus 9.75% 4/15/2016 (Floor 3.25%) | 4,563,368 | 4,563,368 | 4,563,368 |
| LTI HOLDINGS, INC. | Senior secured debt | Industrial products | L+9.25% (Floor 4/30/2023 1.00%) | 7,000,000 | 6,833,894 | 6,833,894 |
| PREPAID LEGAL SERVICES, INC. | Senior secured debt | Consumer services | L+9.00% (Floor 7/1/2020 1.25%) | 5,000,000 | 4,938,623 | 4,938,623 |
| RESEARCH NOW GROUP, INC. | Senior secured debt | Business services | L+8.75% (Floor 3/18/2022 1.00%) | 7,000,000 | 6,903,240 | 6,903,240 |

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| | | | | | | |
|--|---|----------------------------------|--------------------------------------|-----------|------------------------|------------------------|
| ROYAL HOLDINGS, INC. | Senior secured debt | Specialty chemicals | L+7.50% (Floor 7/6/2023 1.00%) | 1,000,000 | 992,822 | 992,822 |
| TITANLINER, INC. | 339,277 shares of Series A convertible preferred stock | Energy services (upstream) | - | - | 3,204,222 | 5,820,000 |
| | Senior subordinated debt | | 8.50% 6/30/2017 | 2,747,000 | 2,747,000 5,951,222 | 2,747,000 8,567,000 |
| TRAX DATA REFINERY, INC. | Common stock | Software & IT services | - | - | 817,781 | 1,916,000 |
| WATER PIK, INC. | Senior secured debt | Consumer products & retail | L+8.75% (Floor 1/8/2021 1.00%) | 4,780,702 | 4,663,299 | 4,663,299 |
| WINZER CORPORATION | Senior subordinated debt | Distribution | 11.00% 5/31/2021 | 8,100,000 | 7,949,343 | 7,949,343 |
| Total Non- control/Non-affiliate Investments | | | | | \$72,951,092 | \$72,946,089 |

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

December 31, 2015

Affiliate

Investments⁷

| | | | | | | | |
|---------------------|--------------------------------|---------------------|---|---|---|-----------|-------------|
| kSEP HOLDINGS, INC. | 861,591 shares of common stock | Healthcare products | - | - | - | \$443,518 | \$2,465,000 |
|---------------------|--------------------------------|---------------------|---|---|---|-----------|-------------|

| | | | | | | | |
|-----------------------------|--|--|--|--|--|-----------|-------------|
| Total Affiliate Investments | | | | | | \$443,518 | \$2,465,000 |
|-----------------------------|--|--|--|--|--|-----------|-------------|

Control Investments⁸

| | | | | | | | |
|-----------------------------------|-------------------------|-----------------------|---|---|---|--------------|--------------|
| I-45 SLF, LLC ^{6, 9, 10} | 80% LLC equity interest | Multi-sector holdings | - | - | - | \$28,800,000 | \$28,423,874 |
|-----------------------------------|-------------------------|-----------------------|---|---|---|--------------|--------------|

| | | | | | | | |
|------------------------------------|--|---------------------|---|---|---|---------|-----------|
| MEDIA RECOVERY, INC. ¹⁰ | 800,000 shares of Series A convertible preferred stock | Industrial products | - | - | - | 800,000 | 5,200,000 |
|------------------------------------|--|---------------------|---|---|---|---------|-----------|

| | | | | | | | |
|--|----------------------------------|--|---|---|---|-----------|------------|
| | 4,000,002 shares of common stock | | - | - | - | 4,615,000 | 25,900,000 |
| | | | | | | 5,415,000 | 31,100,000 |

| | | | | | | | |
|---------------------------|--|--|--|--|--|--------------|--------------|
| Total Control Investments | | | | | | \$34,215,000 | \$59,523,874 |
|---------------------------|--|--|--|--|--|--------------|--------------|

| | | | | | | | |
|---------------------------------|--|--|--|--|--|---------------|---------------|
| TOTAL INVESTMENTS ¹¹ | | | | | | \$107,609,610 | \$134,934,963 |
|---------------------------------|--|--|--|--|--|---------------|---------------|

¹ All debt investments are income-producing, unless otherwise noted. Equity investments are non-income producing, unless otherwise noted.

The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at December 31, 2015.

Certain investments are subject to a LIBOR or Prime interest rate floor.

Investments are carried at fair value in accordance with the Investment Company Act of 1940 (the "1940 Act") and Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 820, Fair Value

³ Measurements and Disclosures. We determine in good faith the fair value of our Investment portfolio pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by our Board of Directors. See Note 4 to the consolidated financial statements.

Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments. At December 31, 2015, approximately 54.1% of the Company's investment assets are non-control investments.

⁵The investment has \$2.9 million unfunded commitment.

⁶Indicates assets that are considered “non-qualifying assets” under section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets.

⁷Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as control investments. At December 31, 2015, approximately 1.8% of the Company’s investment assets are affiliate investments.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

December 31, 2015

Control investments are defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or where greater than 50% of the board representation is maintained. At December 31, 2015, approximately 44.1% of the Company's investment assets are control investments.

⁹The investment has approximately \$39.2 million unfunded commitment.

¹⁰Income producing through dividends on distributions.

The cumulative gross unrealized appreciation for federal income tax purposes is approximately \$31.4 million; ¹¹cumulative gross unrealized depreciation for federal income tax purposes is \$4.1 million. Cumulative net unrealized appreciation is \$27.3 million, based on a tax cost of \$107.6 million.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Audited)

March 31, 2015

| Portfolio Company ¹ | Type of Investment | Industry | Spread Above Index ² | Maturity | Principal | Cost | Value ³ |
|---|--|----------------------------|---------------------------------|----------|-----------|--------------|--------------------|
| Non-control/Non-affiliate Investments ⁴ | | | | | | | |
| ATLANTIC CAPITAL BANCSHARES, INC. ⁵ | 300,000 shares of common stock | Financial services | - | - | - | \$ 3,000,000 | \$ 3,779,000 |
| BALLAST POINT VENTURES II, L.P. ⁵ | 2.1% Limited partnership interest | Multi-sector holdings | - | - | - | 2,634,790 | 3,288,000 |
| BANKCAP PARTNERS FUND I, L.P. ⁵ | 5.5% Limited partnership interest | Multi-sector holdings | - | - | - | 5,071,514 | 4,771,000 |
| CAPITALSOUTH PARTNERS FUND III, L.P. ⁵ | 1.9% Limited partnership interest | Multi-sector holdings | - | - | - | 433,403 | 232,000 |
| DEEPWATER CORROSION SERVICES, INC. | 127,004 shares of Series A Convertible Preferred Stock | Energy services (upstream) | - | - | - | 8,000,000 | 2,532,000 |
| DIAMOND STATE VENTURES, L.P. ⁵ | 1.4% Limited partnership interest | Multi-sector holdings | - | - | - | — | 16,000 |
| FIRST CAPITAL GROUP OF TEXAS III, L.P. ⁵ | 3.0% Limited partnership interest | Multi-sector holdings | - | - | - | 778,895 | 108,000 |
| iMEMORIES, INC. ⁶ | 17,391,304 | | | | | 4,000,000 | — |

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| | | | | | | |
|---|---------------------------|--------|-----------|-----------|-----------|---------|
| shares of Series B convertible preferred stock 4,684,967 shares of Series C convertible preferred stock | Software & IT services | - | - | - | | |
| Convertible debt ⁶ | | - | - | - | 1,078,479 | - |
| Senior secured debt ⁶ | | 10.00% | 7/31/2016 | 1,188,000 | 1,188,000 | - |
| | | | 7/31/2016 | | | |
| | | 18.00% | | 148,507 | 148,507 | 159,000 |
| | | | | | 6,414,986 | 159,000 |

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Audited)

March 31, 2015

| | | | | | | | |
|---|--|----------------------------------|-----------------------|-----------|-----------|------------------------|------------------------|
| INSTAWARES HOLDING COMPANY, LLC | 3,846,154 shares of Class D convertible preferred stock | Software & IT services | - | - | - | 5,000,000 | 5,000,000 |
| RESEARCH NOW GROUP, INC. | Senior secured debt | Business services | L+8.75% (Floor 1.00%) | 3/18/2022 | 2,000,000 | 6,895,231 | 6,895,231 |
| STARTECH SEED FUND II ⁵ | 3.2% Limited partnership interest | Multi-sector holdings | - | - | - | 622,783 | 14,000 |
| TITANLINER, INC. | 339,277 shares of Series A convertible preferred stock | Energy services (upstream) | - | - | - | 3,204,222 | 5,939,000 |
| | Senior subordinated debt | | 8.50% | 6/30/2017 | 2,747,000 | 2,747,000 5,951,222 | 2,747,000 8,686,000 |
| TRAX DATA REFINERY, INC. | 211,368 shares of common stock | Software & IT services | - | - | - | 817,781 | 2,296,000 |
| Total Non-Control/Non-Affiliate Investments | | | | | | \$ 45,620,605 | \$ 37,776,231 |
| Affiliate Investments ⁷ | | | | | | | |
| BOXX TECHNOLOGIES, INC. | 3,125,354 shares of Series B convertible preferred stock | Technology products & components | - | - | - | \$ 1,500,000 | \$ 2,362,000 |
| kSEP HOLDINGS, INC. | 861,591 shares of common stock | Healthcare products | - | - | - | 443,518 | 1,863,000 |

| | | | | | | | | |
|-----------------------------|-----------------|-------------|---|---|---|--------------|--------------|--|
| WELLOGIX, INC. | 4,788,371 | | | | | | | |
| | shares of | | | | | | | |
| | Series A-1 | Software & | | | | | | |
| | convertible | IT services | | | | | | |
| | participating | | | | | | | |
| | preferred stock | | - | - | - | 5,000,000 | 4,120,000 | |
| Total Affiliate Investments | | | | | | \$ 6,943,518 | \$ 8,345,000 | |

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Audited)

March 31, 2015

Control Investments⁸

| | | | | | | | |
|------------------------------------|--|------------------------------------|---|---|---|---------------|----------------|
| BALCO, INC. | 445,000 shares of common stock and 60,920 shares Class B non-voting common stock | Building & infrastructure products | - | - | - | \$ 624,920 | \$ 5,100,000 |
| CAPSTAR HOLDINGS CORPORATION | 500 shares of common stock and 1,000,000 shares of preferred stock | Real estate | - | - | - | 4,703,619 | 10,871,000 |
| HUMAC COMPANY ⁵ | 1,041,000 shares of common stock | Financial services | - | - | - | — | 244,000 |
| MEDIA RECOVERY, INC. ⁹ | 800,000 shares of Series A convertible preferred stock | Industrial products | - | - | - | 800,000 | 4,300,000 |
| | 4,000,002 shares of common stock | | - | - | - | 4,615,000 | 21,700,000 |
| | | | | | | 5,415,000 | 26,000,000 |
| THE RECTORSEAL CORPORATION | 27,907 shares of common stock | Specialty chemicals | - | - | - | 52,600 | 358,200,000 |
| THE WHITMORE MANUFACTURING COMPANY | 80 shares of common stock | Specialty chemicals | - | - | - | 1,600,000 | 89,000,000 |
| Total Control Investments | | | | | | \$ 12,396,139 | \$ 489,415,000 |
| TOTAL INVESTMENTS ¹⁰ | | | | | | \$64,960,262 | \$535,536,231 |

¹ All debt investments are income-producing, unless otherwise noted. Equity investments are non-income producing, unless otherwise noted.

The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at March 31, 2015.

Certain investments are subject to a LIBOR or Prime interest rate floor.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Audited)

March 31, 2015

Investments are carried at fair value in accordance with the Investment Company Act of 1940 (the “1940 Act”) and Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 820, Fair Value Measurements and Disclosures. We determine in good faith the fair value of our Investment portfolio pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by our Board of Directors. See Note 4 to the consolidated financial statements.

Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments. At March 31, 2015, approximately 7.1% of the Company’s investment assets are non-control investments.

Indicates assets that the Company believes do not represent “qualifying assets” under section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets.

Investment was on non-accrual status as of March 31, 2015, meaning the Company has ceased recognizing interest income on the investment.

Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as control investments. At March 31, 2015, approximately 1.5% of the Company’s investment assets are affiliate investments.

Control investments are defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or maintains greater than 50% of the board representation. At March 31, 2015, approximately 91.4% of the Company’s investment assets are control investments.

Income producing through dividends on distributions.

The cumulative gross unrealized appreciation for federal income tax purposes is approximately \$487.0 million; cumulative gross unrealized depreciation for federal income tax purposes is \$13.5 million. Cumulative net unrealized appreciation is \$473.5 million, based on a tax cost of \$62.0 million.

Changes to the Consolidated Schedule of Investments at March 31, 2015 are presentation changes only to conform to current period presentation.

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Notes to Consolidated Financial Statements

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Capital Southwest Corporation ("CSWC" or the "Company") is a publicly traded investment company. Our investment interests are focused on investments in a broad range of industry segments. We were organized as a Texas corporation on April 19, 1961. Until September 1969, we operated a small business investment company ("SBIC") licensed under the Small Business Investment Act of 1958. At that time, CSWC transferred to its wholly-owned subsidiary, Capital Southwest Venture Corporation ("CSVC"), certain assets including our license as a "SBIC". CSVC is a closed-end, non-diversified investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). Prior to March 30, 1988, CSWC was registered as a closed-end, non-diversified investment company under the 1940 Act. On that date, we elected to be treated as a business development company ("BDC") subject to the provisions of the 1940 Act, as amended by the Small Business Incentive Act of 1980. In order to remain a BDC, we must meet certain specified requirements under the 1940 Act, including investing at least 70% of our assets in eligible portfolio companies and limiting the amount of leverage we incur. We are also a regulated investment company ("RIC") under Subchapter M of the U.S. Internal Revenue Code of 1986 (the "Code"). As such, we are not required to pay corporate-level income tax on our investment income. We intend to maintain our RIC status, which requires that we qualify annually as a RIC by meeting certain specified requirements. Because CSWC wholly owns CSVC, the portfolios of CSWC and CSVC are referred to collectively as "our," "we" and "us." Capital Southwest Management Company ("CSMC"), a wholly-owned subsidiary of CSWC, is the management company for CSWC and CSVC. CSMC generally incurs all normal operating and administrative expenses, including, but not limited to, salaries and related benefits, rent, office expenses and other administrative costs required for its day-to-day operations.

Our current portfolio consists of debt and equity investments of which we have controlling interests or non-controlling interests. We make available significant managerial assistance to the companies in which we invest when we believe that providing managerial assistance to such investee companies is critical to their business development activities. In allocating our future investments, our management team is focused on investing in debt securities in middle market companies, both sponsored and non-sponsored. We will seek investments with hold sizes ranging from \$5 million to \$20 million generally in companies with EBITDA (earnings before interest, taxes, depreciation and amortization) of at least \$3 million. Our investments will typically take the form of either senior secured notes or subordinated notes, and often we will seek to invest in equity alongside our debt. Our directly originated investments are typically in lower middle market companies (EBITDA ranging from \$3 million to \$15 million). We also consider investments in broadly syndicated first and second lien loans in large middle market companies (EBITDA greater than \$50 million).

Basis of Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). We meet the definition of an investment company and follow the accounting and reporting guidance in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946 – Financial Services – Investment Companies ("ASC Topic 946"). Under rules and regulations applicable to investment companies, we are generally precluded from consolidating any entity other than another investment company subject to certain exceptions. One of the exceptions to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. Accordingly, the consolidated financial statements include CSMC, our management company.

The consolidated financial statements are presented in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain

disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of our management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. The results of operations for the three months and nine months ended December 31, 2015 and 2014 are not necessarily indicative of the operating results to be expected for the full fiscal year. Also, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended March 31, 2015. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

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Spin-off of CSW Industrials, Inc.

On September 30, 2015, we completed the spin-off (the “Share Distribution”) of CSW Industrials, Inc. (“CSWI”). CSWI is now an independent publicly traded company. CSWI’s common stock trades on the Nasdaq Stock Market under the symbol “CSWI.” The Share Distribution was effected through a tax-free, pro-rata distribution of 100% of CSWI’s common stock to shareholders of the Company. Each shareholder received one share of CSWI common stock for every one share of our common stock held at 5:00 p.m., Eastern time, on the record date, September 18, 2015. Cash was paid in lieu of any fractional shares of CSWI common stock.

CSWI’s assets and businesses consist of our former industrial products, coatings, sealants & adhesives and specialty chemicals businesses and include all the equity interests of The RectorSeal Corporation, The Whitmore Manufacturing Company, Balco, Inc., and CapStar Holdings Corporation. The aforementioned four entities had a combined cost basis of \$6,981,139 and an unrealized gain of \$456,189,861 at the date of the Share Distribution. In conjunction with the Share Distribution, the Company also contributed \$13 million cash and transferred the ownership of CSWC Qualified Pension Plan to CSWI. CSWI also assumed the sponsorship of our Qualified Pension Plan and certain liabilities under the Restoration Plan related to their employees, which resulted in a change in net pension assets of \$9,687,403 and a change in deferred tax liabilities of \$ 3,390,591. These spin-off assets were accounted for in accordance with ASC 505-60 Equity – Spin offs and Reverse Spinoffs.

Following the spin-off, we have maintained operations as an internally-managed BDC and pursue a credit-focused investing strategy akin to similarly structured organizations. We will continue to provide capital to middle-market companies and primarily invest in debt securities, including senior secured debt and subordinated debt, and may also invest in preferred stock and common stock alongside its debt investments or through warrants. We also consider investments in broadly syndicated first and second lien loans in large middle market companies.

Following the spin-off, we remain a RIC under Subchapter M of the Code. See Note 5 of this report for a discussion of our status as a RIC.

Portfolio Investment Classification

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are defined as investments in which we own more than 25% of the voting securities or have rights to maintain greater than 50% of the board representation; “Affiliated Investments” are defined as investments in which we own between 5% and 25% of the voting securities; and “Non-Control/Non-Affiliated Investments” are defined as investments that are neither “Control Investments” nor “Affiliated Investments.”

Under the 1940 Act, a BDC must meet certain requirements, including investing at least 70% of our assets in qualifying assets. The principal categories of qualifying assets relevant to our business are any of the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company (as defined below), or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC.
- (2) Securities of any eligible portfolio company that we control.
- (3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

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(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by CSWC in the preparation of the consolidated financial statements.

Fair Value Measurements We apply fair value to substantially all of our financial instruments in accordance with ASC Topic 820 – Fair Value Measurements and Disclosures (“ASC Topic 820”). ASC Topic 820 defines fair value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. See Note 4 to the consolidated financial statements for further discussion regarding the fair value measurements and hierarchy.

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. We believe that the carrying amounts of its financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments.

Investments Investments are stated at fair value and are reviewed and approved by our Board of Directors as described in the Notes to the Consolidated Schedule of Investments and Notes 3 and 4 below. The average cost method is used in determining cost of investments sold. Investments are recorded on a trade date basis.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption of an investment or a financial instrument and the cost basis of the investment or financial investment, without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period net of recoveries and realized gains or losses from in-kind redemptions. Net change in unrealized appreciation or depreciation reflects the net change in the fair value of the investment portfolio and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments and financial instruments to realized gains or losses.

Cash and Cash Equivalents Cash and cash equivalents consist of deposits at financial institutions. We deposit our cash in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limits.

Segment Information We operate and manage our business in a singular segment. As an investment company, we invest in portfolio companies in various industries as presented in the Consolidated Schedule of Investments.

Consolidation As permitted under Regulation S-X and ASC Topic 946, we generally do not consolidate our investment in a portfolio company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to CSWC. Accordingly, we consolidated the results of CSWC’s wholly-owned subsidiaries, CSVC and CSWC’s wholly-owned management company, CSMC.

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Use of Estimates The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include investment valuations and deferred taxes.

Interest and Dividend Income Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan. Any remaining discount/premium is accreted or amortized into income upon prepayment of the loan. In accordance with our valuation policy, accrued interest and dividend income is evaluated periodically for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding ability to service debt or other obligations, it will be restored to accrual basis. As of December 31, 2015, we do not have any investments on non-accrual status. As of March 31, 2015, we had one investment on non-accrual status.

To maintain RIC tax treatment, these non-cash sources of income like accretion of interest income may need to be paid out to stockholders in the form of distributions, even though CSWC may not have collected the interest income. For the three months ended December 31, 2015, approximately 0.7% of CSWC's total investment income was attributable to interest income for the accretion of discounts associated with debt investments, net of any premium reduction. For the nine months ended December 31, 2015, approximately 0.8% of CSWC's total investment income was attributable to interest income for the accretion of discounts associated with debt investments, net of any premium reduction.

Federal Income Taxes CSWC and CSVC have elected and intend to comply with the requirements of the Internal Revenue Code ("IRC") necessary to qualify as RICs. By meeting these requirements, they will not be subject to corporate federal income taxes on ordinary income distributed to shareholders. In order to comply as a RIC, each company is required to timely distribute to its shareholders at least 90% of investment company taxable income, as defined by the IRC, each year. Investment company taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. Investment company taxable income excludes net unrealized appreciation or depreciation, as investment gains and losses are not included in investment company taxable income until they are realized.

In addition to the requirement that we must annually distribute at least 90% of our investment company taxable income, we may either distribute or retain our realized net capital gains from investments, but any net capital gains not distributed may be subject to corporate level tax. When we retain the capital gains, they are classified as a "deemed distribution" to our shareholders and are subject to our corporate tax rate of 35%. As an investment company that qualifies as a RIC under the IRC, federal income taxes payable on security gains that we elect to retain are accrued only on the last day of our tax year, December 31. Any capital gains actually distributed to shareholders are generally taxable to the shareholders as long-term capital gains. See Note 5 for further discussion.

CSMC, a wholly owned subsidiary of CSWC, is not a RIC and is required to pay taxes at the current corporate rate of 34%.

We account for interest and penalties as part of operating expenses. There were no interests or penalties incurred during the three and nine months ended December 31, 2015 and 2014.

Deferred Taxes Effective upon the spin-off of CSWI, CSWI assumed the sponsorship of the Qualified Retirement Plan. Deferred taxes related to the changes in the Qualified Defined Pension Plan, Restoration Plan, individual cash

incentive award and bonus accruals are recorded on a quarterly basis. See Note 5 for further discussion.

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Stock-Based Compensation We account for our stock-based compensation using the fair value method, as prescribed by FASB ASC Topic 718, Compensation – Stock Compensation. Accordingly, we recognize stock-based compensation cost on a straight-line basis for all share-based payments and awards granted to employees. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the requisite service period of the related stock options. For restricted stock awards, we measured the grant date fair value based upon the market price of our common stock on the date of the grant. We utilized Monte Carlo simulation to develop grant date fair value for any restricted awards that are affected by a market condition. For both restricted stock awards and market condition affected restricted awards, we will amortize this fair value to share-based compensation expense over the vesting term. For individual incentive awards, the option value of the individual cash incentive awards is calculated based on the changes in net asset value of our Company. In connection with the spin-off of CSWI, we entered into an Employee Matters Agreement with CSWI. Under this agreement, the value of such individual incentive cash awards shall be determined based upon the net asset value of CSWC as of June 30, 2015. See Note 8 for further discussion.

Concentration of Risk We place our idle cash in financial institutions and such balances may be in excess of the federally insured limits.

Earnings per Share Earnings per share calculations are computed utilizing the weighted-average number of shares of common stock and fully diluted shares outstanding for the period. In accordance with ASC 260, Earnings per Share, the unvested shares of restricted stock awarded pursuant to CSWC's equity compensation plans are participating securities and are included in the basic and diluted earnings per share calculation.

Shareholder Distributions Distributions to common stockholders are recorded on the ex-dividend date. The amount of distributions, if any, is determined by the Board of Directors each quarter.

Presentation Presentation of certain amounts on the Consolidated Statements of Operations for the prior year comparative financial statements is updated to conform to the current period presentation. This mainly includes disclosure of amounts at a more disaggregated level.

Reclassifications Certain reclassifications have been made to the prior year comparative financial statements in order to conform to the current period presentation. These reclassifications had no effect on previously reported results of operations, cash flows, or net assets.

Recently Issued or Adopted Accounting Standards In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 significantly changes the consolidation analysis required under GAAP and ends the deferral of the amendments to the VIE guidance in ASU 2009-17 (FAS 166) for investments in certain investment companies. Now all legal entities that are VIEs are evaluated for consolidation under the same criteria. Under this update, limited partnerships (or similar entities) that provide the limited partners with substantive kick-out or participating rights will be considered voting interest entities. For such entities, the investor that holds the majority of the substantive kick-out or participating rights will consolidate the VIE. This has the effect of reducing the likelihood that a general partner will consolidate a limited partnership or similar entity. . ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. In accordance with this new guidance, we did not consolidate I-45 SLF, LLC based on the voting model as we only control 50% of the voting rights of this entity and, accordingly, share power over the entity equally in all respects with our joint venture partner. We adopted this guidance during the quarter ended December 31, 2015.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurements – Disclosures for Certain Entities that Calculate Net Asset Value per Share. This amendment updates guidance intended to eliminate the diversity in practice surrounding how investments measured at net asset value under the practical expedient with future

redemption dates have been categorized in the fair value hierarchy. Under the updated guidance, investments for which fair value is measured at net asset value per share using the practical expedient should no longer be categorized in the fair value hierarchy, while investments for which fair value is measured at net asset value per share but the practical expedient is not applied should continue to be categorized in the fair value hierarchy. The updated guidance requires retrospective adoption for all periods presented and is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We elected to adopt this guidance during the quarter ended December 31, 2015. As a result, investments measured at net asset value per share using the practical expedient are no longer categorized in the fair value hierarchy. In addition, our fair value hierarchy table as of March 31, 2015 has been adjusted to reflect the adoption of ASU 2015-07 on a retrospective basis.

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3. INVESTMENTS

The following table shows the composition of the investment portfolio, at cost and fair value (with corresponding percentage of total portfolio investments):

| | Cost | Percentage of Total Portfolio | Fair Value | Percentage of Total Portfolio | |
|----------------------------|---------|--|---------------|--|---|
| (dollars in millions) | | | | | |
| December 31, 2015: | | | | | |
| 1 st lien notes | \$11.3 | 10.5 | % \$11.3 | 8.4 | % |
| 2 nd lien notes | 38.9 | 36.2 | 38.9 | 28.9 | |
| Subordinated debt | 10.7 | 9.9 | 10.7 | 7.9 | |
| Preferred & common equity | 17.9 | 16.6 | 45.6 | 33.8 | |
| I-45 SLF, LLC | 28.8 | 26.8 | 28.4 | 21.0 | |
| | \$107.6 | 100.0 | % \$134.9 | 100.0 | % |

March 31, 2015:

| | | | | | |
|----------------------------|--------|--------|---------|--------|---|
| 2 nd lien notes | \$6.9 | 10.6 | % \$6.9 | 1.3 | % |
| Subordinated debt | 4.1 | 6.2 | 2.9 | 0.5 | |
| Preferred & common equity | 44.4 | 68.5 | 517.3 | 96.6 | |
| Partnership interest | 9.5 | 14.7 | 8.4 | 1.6 | |
| | \$64.9 | 100.0% | \$535.5 | 100.0% | |

The following table shows the composition of the investment portfolio by industry, at cost and fair value (with corresponding percentage of total portfolio investments):

| | Cost | Percentage of Total Portfolio | Fair Value | Percentage of Total Portfolio | |
|-----------------------------------|---------|-------------------------------------|---------------|-------------------------------------|---|
| (dollars in millions) | | | | | |
| December 31, 2015: | | | | | |
| I-45 SLF, LLC ¹ | \$28.8 | 26.8 | % \$28.4 | 21.1 | % |
| Consumer Products and Retail | 16.2 | 15.1 | 16.2 | 12.0 | |
| Energy Services (Upstream) | 14.0 | 13.1 | 12.9 | 9.6 | |
| Industrial Products | 12.2 | 11.3 | 37.9 | 28.1 | |
| Distribution | 7.9 | 7.3 | 7.9 | 5.9 | |
| Business Services | 6.9 | 6.4 | 6.9 | 5.1 | |
| Healthcare Products | 5.3 | 4.9 | 7.3 | 5.4 | |
| Media, Marketing, & Entertainment | 5.0 | 4.6 | 5.0 | 3.7 | |
| Consumer Services | 4.9 | 4.6 | 4.9 | 3.6 | |
| Financial Services | 4.6 | 4.3 | 4.6 | 3.4 | |
| Specialty Chemicals | 1.0 | 0.9 | 1.0 | 0.7 | |
| Software & IT Services | 0.8 | 0.7 | 1.9 | 1.4 | |
| | \$107.6 | 100.0 | % \$134.9 | 100.0 | % |

March 31, 2015:

| | | | | | |
|----------------------------|--------|------|----------|-----|---|
| Software & IT Services | \$17.2 | 26.5 | % \$11.5 | 2.1 | % |
| Energy Services (Upstream) | 14.0 | 21.6 | 11.2 | 2.1 | |

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| | | | | |
|------------------------------------|--------|-------|-----------|---------|
| Multi-sector Holdings | 9.5 | 14.6 | 8.6 | 1.6 |
| Business Services | 6.9 | 10.7 | 6.9 | 1.3 |
| Industrial Products | 5.4 | 8.3 | 26.0 | 4.9 |
| Real Estate | 4.7 | 7.3 | 10.9 | 2.0 |
| Financial Services | 3.0 | 4.6 | 3.8 | 0.7 |
| Specialty Chemicals | 1.7 | 2.6 | 447.2 | 83.5 |
| Technology Products & Components | 1.5 | 2.3 | 2.4 | 0.4 |
| Building & Infrastructure Products | 0.6 | 0.9 | 5.1 | 1.0 |
| Healthcare Products | 0.4 | 0.6 | 1.9 | 0.4 |
| | \$64.9 | 100.0 | % \$535.5 | 100.0 % |

I-45 SLF, LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans in the upper middle market. The portfolio companies in I-45 include multi-sector holdings, which are similar to those in which CSWC invests directly. See Note 13 for further discussion.

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4. FAIR VALUE MEASUREMENTS

Investment Valuation Process

The CSWC valuation process is led by the finance department in conjunction with the investment teams. The process includes a monthly review of each investment by the executive officers of CSWC. Valuations of each portfolio security are prepared quarterly by the finance department using updated financial and other operational information collected by the investment teams. Each investment valuation is then subject to review by the executive officers and investment teams. In conjunction with the internal valuation process, we have also engaged CTS Capital Advisors, an independent consulting firm specializing in financial due diligence, valuation, ABL services, and business advisory services to provide a third-party valuation review of certain investments. CTS provides a range of values for selected investments which is presented to CSWC's executive officers and Board of Directors.

CSWC also uses a standard internal investment rating system in connection with its investment oversight, portfolio management, and investment valuation procedures for its debt portfolio. This system takes into account both quantitative and qualitative factors of the portfolio company and the investments held therein.

There is no single standard for determining fair value in good faith, as fair value depends upon the specific circumstances of each individual investment. While management believes our valuation methodologies are appropriate and consistent with market participants, the recorded fair values of our investments may differ significantly from fair values that would have been used had an active market for the securities existed. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. The Board of Directors has the ultimate responsibility for reviewing and approving, in good faith, the fair value of CSWC's investments in accordance with the 1940 Act.

Fair Value Hierarchy

CSWC has established and documented processes for determining the fair values of portfolio company investments on a recurring basis in accordance with the 1940 Act and FASB ASC Topic 820, Fair Value Measurements and Disclosures ("ASC Topic 820"). As required by ASC Topic 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, unrealized appreciation and depreciation related to such investments categorized within the Level 3 tables below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). CSWC conducts reviews of fair value hierarchy classifications on a quarterly basis. We also use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement.

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The three levels of valuation inputs established by ASC Topic 820 are as follows:

Level 1: Investments whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Investments whose values are based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Investments whose values are based on unobservable inputs that are significant to the overall fair value measurement.

As of December 31, 2015, 100% of the CSWC investment portfolio consisted of debt and equity instruments of privately held companies for which quoted prices or other inputs falling within the categories of Level 1 and Level 2 are generally not available. Therefore, CSWC determines the fair value its investments (excluding investments for which fair value is measured at net asset value) in good faith using Level 3 inputs, pursuant to a valuation policy and process that is established by the management of CSWC with the assistance of third-party valuation advisors and subsequently approved by our Board of Directors.

Investment Valuation Inputs

ASC Topic 820 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and excludes transaction costs. Under ASC Topic 820, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under ASC Topic 820, it is assumed that the reporting entity has access to the market as of the measurement date.

The Level 3 inputs to CSWC's valuation process reflect our best estimate of the assumptions that would be used by market participants in pricing the investment in a transaction in the principal or most advantageous market for the asset.

The fair value determination of each portfolio investment categorized as Level 3 required one or more of the following unobservable inputs:

- Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;
- Current and projected financial condition of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- Type and amount of collateral, if any, underlying the investment;
- Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio and net debt/EBITDA ratio) applicable to the investment;
- Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);

- Pending debt or capital restructuring of the portfolio company;
- Projected operating results of the portfolio company;
- Current information regarding any offers to purchase the investment;
- Current ability of the portfolio company to raise any additional financing as needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;

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- Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant.

CSWC uses several different valuation approaches depending on the security type including the Market Approach, the Income Approach, the Enterprise Value Waterfall Approach, the NAV Valuation Method, and 3rd Party Broker quotes.

Market Approach

Market Approach is a qualitative and quantitative analysis of the aforementioned unobservable inputs. It is a combination of the Enterprise Value Approach and Income Approach as described in detail below. For debt investments recently originated or where the value has not departed significantly from its cost, we generally rely on our cost basis or recent transaction price to determine the fair value, unless a material event has occurred since origination.

Income Approach

In valuing debt securities, we utilize an “Income Approach” model that considers some or all of the factors listed above to develop an expectation of the yield that a hypothetical market participant would require when purchasing each debt investment (the “Required Market Yield”). The Required Market Yield is calculated in a two-step process. First, using quarterly market data from CTS Capital Advisors we estimate the current market yield of similar debt securities. Next, based on the factors described above we modify the current market yield for each security to come up with a unique Required Market Yield for each of our investments. The resulting Required Market Yield is the significant Level 3 input to the Income Approach model. For investments where the factors listed above have not fluctuated significantly from the date the investment was made or have not fluctuated significantly from CSWC’s expectations as of the date the investment was made, and where there have been no significant fluctuations in the market pricing for such investments, we may conclude that the Required Market Yield is equal to the stated rate on the investment and therefore, the debt security is appropriately priced. In instances where CSWC determines that the Required Market Yield is different from the stated rate on the investment, we discount the contractual cash flows on the debt instrument using the Required Market Yield in order to estimate the fair value of the debt security.

Fair value measurements using the Income Approach model can be sensitive to significant changes in one or more of the inputs. A significant increase (decrease) in the Required Market Yield for a particular debt security may result in a lower (higher) fair value for that security.

Enterprise Value Waterfall Approach

In valuing equity securities (including warrants), CSWC estimates fair value using an “Enterprise Value Waterfall” valuation model. CSWC estimates the enterprise value of a portfolio company and then allocates the enterprise value to the portfolio company’s securities in order of their relative liquidation preference. In addition, CSWC assumes that any outstanding debt or other securities that are senior to CSWC’s equity securities are required to be repaid at par. Additionally, we estimate the fair value of a limited number of our debt securities using the Enterprise Value Waterfall approach.

To estimate the enterprise value of the portfolio company, CSWC uses a weighted valuation model based on public comparable companies, observable transactions and discounted cash flow analyses. A main input into the valuation model is a measure of the portfolio company's financial performance, which generally is either earnings before interest, taxes, depreciation and amortization, as adjusted ("Adjusted EBITDA") or revenues. In addition, we consider other factors, including but not limited to (i) offers from third parties to purchase the portfolio company, and (ii) the implied value of recent investments in the equity securities of the portfolio company. For certain non-performing assets, we may utilize the liquidation or collateral value of the portfolio company's assets in its estimation of enterprise value.

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The significant Level 3 inputs to the Enterprise Value Waterfall model are (i) an appropriate multiple derived from the comparable public companies and transactions, (ii) discount rate assumptions used in the discounted cash flow model and (iii) a measure of the portfolio company's financial performance, which generally is either Adjusted EBITDA or revenues. Such inputs can be based on historical operating results, projections of future operating results or a combination thereof. The operating results of a portfolio company may be unaudited, projected or pro forma financial information and may require adjustments for certain non-recurring items. CSWC also may consult with the portfolio company's senior management to obtain updates on the portfolio company's performance, including information such as industry trends, new product development, loss of customers and other operational issues. Fair value measurements using the Enterprise Value Waterfall model can be sensitive to significant changes in one or more of the inputs. A significant increase (decrease) in either the multiple, Adjusted EBITDA or revenues for a particular equity security would result in a higher (lower) fair value for that security.

NAV Valuation Method

Under the NAV valuation method, for an investment in an investment fund that does not have a readily determinable fair value, CSWC measures the fair value of the investment predominately based on the NAV of the investment fund as of the measurement date. However, in determining the fair value of the investment, we may consider whether adjustments to the NAV are necessary in certain circumstances, based on the analysis of any restrictions on redemption of our investment as of the measurement date, recent actual sales or redemptions of interests in the investment fund, expected future cash flows available to equity holders, or other uncertainties surrounding CSWC's ability to realize the full NAV of its interests in the investment fund.

3rd Party Broker Quotes

CSWC determines the appropriateness of the use of third-party broker quotes, if any, in determining fair value based on its understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer, the depth and consistency of broker quotes and the correlation of changes in broker quotes with underlying performance of the portfolio company and other market indices.

The table below presents the Valuation Techniques and Significant Level 3 Inputs (ranges and weighted averages) used in the valuation of CSWC's debt and equity securities at December 31, 2015 and March 31, 2015. The table is not intended to be all inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair value.

| Type | Valuation Technique | Fair Value at 12/31/2015 (in millions) | Significant Unobservable Inputs | Range | Weighted Average |
|------------------------------|--|--|---------------------------------------|--------------------|---------------------|
| Equity Investments | Enterprise Value Waterfall Approach | \$ 45.6 | EBITDA Multiple | 4.3x - 7.5x | 6.8x |
| | | | Discount Rate | 11.20% - 13.55% | 13.10% |
| Debt Investments | Income Approach | 43.8 | Discount Rate | 8.25% - 11.75% | 9.90% |
| | Market Approach | 17.1 | Cost | N/A | N/A |
| | | 60.9 | | | |
| Total Level 3 Investments | | \$ 106.5 | | | |

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| Type | Valuation Technique | Fair Value at 3/31/2015 (in millions) | Significant Unobservable Inputs | Range | Weighted Average |
|---------------------------|---------------------|---------------------------------------|-------------------------------------|---------------|------------------|
| Equity Investments | Market Approach | \$ 494.1 | EBITDA Multiple | 3.00x - 7.75x | 7.15x |
| | Market Approach | 4.2 | Recent Transaction Price | N/A | N/A |
| | Market Approach | 15.0 | Cash and Asset Value | N/A | N/A |
| | Market Approach | 3.8 | Multiple of Tangible Book Value | 1.43x | 1.43x |
| | Market Approach | 0.2 | Market Value of Held for Securities | N/A | N/A |
| | | 517.3 | | | |
| Debt Investments | Face Value | 6.9 | Recent Transaction Price | N/A | N/A |
| | Market Approach | 2.7 | Expected Cash Flow | N/A | N/A |
| | Liquidation Value | 0.2 | | | |
| | | 9.8 | | | |
| Total Level 3 Investments | | \$ 527.1 | | | |

As of December 31, 2015 and March 31, 2015, 100% of our portfolio investments were categorized as Level 3.

The following fair value hierarchy tables set forth our investment portfolio by level as of December 31, 2015 and March 31, 2015 (in millions):

| | | Fair Value Measurements at December 31, 2015 Using | | |
|--|---------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>Asset Category</u> | Total | | | |
| 1 st lien notes | \$11.3 | \$ — | \$ — | \$ 11.3 |
| 2 nd lien notes | 38.9 | — | — | 38.9 |
| Subordinated debt | 10.7 | — | — | 10.7 |
| Preferred & common equity | 45.6 | — | — | 45.6 |
| Investments measured at net asset value ¹ | 28.4 | — | — | — |
| Total Investments | \$134.9 | \$ — | \$ — | \$ 106.5 |

| | | Fair Value Measurements at March 31, 2015 Using | | |
|-----------------------|-------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>Asset Category</u> | Total | | | |

| | | Price in Active Markets for Identical Assets (Level 1) | Observable Inputs (Level 2) | Inputs (Level 3) |
|------------------------------------|---------|--|-----------------------------------|---------------------|
| 2 nd lien notes | \$6.9 | \$— | \$— | \$ 6.9 |
| Subordinated debt | 2.9 | — | — | 2.9 |
| Preferred & common equity | 517.3 | — | — | 517.3 |
| Partnership Interests ¹ | 8.4 | — | — | — |
| Total Investments | \$535.5 | \$— | \$— | \$ 527.1 |

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¹Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Consolidated Statements of Assets and Liabilities.

Changes in Fair Value Levels

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model based valuation techniques may require the transfer of financial instruments from one fair value level to another. We recognize the transfer of financial instruments between levels at the end of each quarterly reporting period.

The following tables provide a summary of changes in the fair value of investments measured using Level 3 inputs during the nine months ended December 31, 2015 (in millions):

| | Fair Value 3/31/15 | Net Unrealized Appreciation (Depreciation) | Unrealized Depreciation due to spin-off of CSWI | Purchases of Investments ¹ | Divestitures | Distributions | Fair Value at 12/31/15 |
|----------------------------|--------------------|--|---|---------------------------------------|--------------|---------------|------------------------|
| 1 st lien notes | \$ – | \$ – | \$ – | \$ 11.3 | \$ – | \$ – | \$ 11.3 |
| 2 nd lien notes | 6.9 | – | – | 32.0 | – | – | 38.9 |
| Subordinated debt | 2.9 | 1.1 | – | 8.0 | (1.3) | – | 10.7 |
| Preferred & Common Equity | 517.3 | 11.0 | (456.2) | – | (19.5) | (7.0) | 45.6 |
| Total Investments | \$ 527.1 | \$ 12.1 | \$ (456.2) | \$ 51.3 | \$ (20.8) | \$ (7.0) | \$ 106.5 |

*Represents the costs basis of the The RectorSeal, Corporation, The Whitmore Manufacturing Company, Balco, Inc. and CapStar Holdings Corporation that were spun off to CSW Industrials, Inc. at September 30, 2015.

¹ Includes purchases of new investments, as well as discount accretion on existing investments.

The total unrealized gains included in earnings that related to assets still held at the report date for the nine months ended December 31, 2015 and December 31, 2014 were \$6,575,874 and \$69,063,080, respectively.

5. INCOME TAXES

We have elected to be treated to qualify as a RIC under Subchapter M of the IRC and have a tax year end of December 31. In order to qualify as a RIC, we must annually distribute at least 90% of our investment company taxable income, as defined by the IRC, to our shareholders in a timely manner. Investment company income generally includes net short-term capital gains but excludes net long-term capital gains. A RIC is not subject to federal income tax on the portion of its ordinary income and long-term capital gains that is distributed to its shareholders, including “deemed distributions” discussed below. As permitted by the IRC, a RIC can designate dividends paid in the subsequent tax year as dividends of current year ordinary income and net long-term gains if those dividends are both declared by the extended due date of the RIC’s federal income tax return and paid to shareholders by the last day of the subsequent tax year.

We have distributed or intend to distribute sufficient dividends to eliminate taxable income for our completed tax years. If we fail to satisfy the 90% distribution requirement or otherwise fail to qualify as a RIC in any tax year, we would be subject to tax in such year on all of our taxable income, regardless of whether we made any distributions to

our shareholders. During the current tax year, we declared and paid ordinary dividends of \$1,543,833, which were subsequently reclassified as capital gains at the end of the year. For the tax year ended December 31, 2014, we declared and paid ordinary dividends in the amounts of \$3,082,911.

Additionally, we are subject to a nondeductible federal excise tax of 4% if we do not distribute at least 98% of our investment company ordinary taxable income before the end of our tax year. For the tax year ended December 31, 2015, we incurred a net investment loss on a tax basis. As a result, we have no tax provision for income taxes on ordinary taxable income for the tax year ended December 31, 2015.

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A RIC may elect to retain its long-term capital gains by designating them as a “deemed distribution” to its shareholders and paying a federal tax rate of 35% on the long-term capital gains for the benefit of its shareholders. Shareholders then report their share of the retained capital gains on their income tax returns as if it had been received and report a tax credit for tax paid on their behalf by the RIC. Shareholders then add the amount of the “deemed distribution” net of such tax, to the basis of their shares.

During our tax year ended December 31, 2015, we had long-term capital gains of \$9,966,530 for tax purposes, of which \$1,543,833 was distributed to shareholders as a capital gain dividend. The total undistributed capital gain totaled \$8,422,697, which we elected to retain and treat as deemed distributions to our shareholders.

In order to make the election to retain capital gains, we incurred federal taxes on behalf of our shareholders in the amount of \$2,947,944 for the tax year ended December 31, 2015.

For the quarters ended December 31, 2015 and 2014, CSWC and CSVC qualified to be taxed as RICs. We intend to meet the applicable qualifications to be taxed as RICs in future years. However, either company’s ability to meet certain portfolio diversification requirements for RICs in future years may not be controllable by the company.

CSMC, a wholly-owned subsidiary of CSWC, is not a RIC and is required to pay taxes at the current corporate rate. CSMC records individual incentive award and bonus accruals on a quarterly basis. Effective with the spin-off of CSW Industrials, Inc. (CSWI), CSWI assumed the sponsorship of the Qualified Retirement Plan. Deferred taxes related to the changes in qualified defined pension plan, Restoration Plan, individual incentive award and bonus accruals are also recorded on a quarterly basis. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Establishing a valuation allowance of a deferred tax asset requires management to make estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from management company’s operations. As of December 31, 2015, CSMC had a deferred tax asset of approximately \$3.6 million, our valuation allowance was \$2.1 million and our net deferred tax asset was \$1.5 million. We believe that it is more likely than not we will be able to utilize \$1.5 million of our deferred tax assets as of December 31, 2015. We will continue to assess our ability to realize our existing deferred tax assets. As of December 31, 2015 and March 31, 2015, CSMC has a deferred tax asset (liability) of \$1.5 million and \$1.4 million, respectively.

6. ACCUMULATED NET REALIZED GAINS ON INVESTMENTS

Distributions made by RICs often differ from aggregate U.S GAAP-basis undistributed net investment income and accumulated net realized gains (total U.S. GAAP-basis net realized gains). The principal cause is that required minimum fund distributions are based on income and gain amounts determined in accordance with federal income tax regulations, rather than U.S. GAAP. The differences created can be temporary, meaning that they will reverse in the future, or they can be permanent. In subsequent periods, when all or a portion of a temporary difference becomes a permanent difference, the amount of the permanent difference will be reclassified to “additional capital.”

We incur federal taxes on behalf of our shareholders as a result of our election to retain long-term capital gains. We had \$9,993,320 and \$22,355,353 of accumulated long term capital gains, as of December 31, 2015 and March 31, 2015, respectively. In accordance with the RIC rules, we elected to retain our long-term capital gains for the tax year ended December 31, 2015, incurred the applicable taxes of \$2,947,944 and designated the after-tax gain as “deemed distributions” to the shareholders. “Deemed distributions” are reclassified from accumulated net realized gains into additional paid-in-capital at the end of December.

7. SPIN-OFF COMPENSATION PLAN

On August 28, 2014, our Board of Directors adopted a compensation plan consisting of grants of nonqualified stock options, restricted stock and cash incentive awards to certain officers of the Company at the time. The plan was intended to align the compensation of the Company's key officers with the Company's strategic objective of increasing the market value of the Company's shares through a transformative transaction for the benefit of the Company's shareholders. Under the plan, Joseph B. Armes, former CEO of the Company, Kelly Tacke, former CFO of the Company, and Bowen S. Diehl, former CIO and current CEO of the company, were eligible to receive an amount equal to six percent of the aggregate appreciation in the Company's share price from August 28, 2014 (using a base price of \$36.16 per share) to 90 days after a transformative event. The first plan component consists of nonqualified options awarded to purchase 259,000 shares of common stock at an exercise price of \$36.60 per share. The second plan component consists of awards of 127,000 shares of restricted stock, which have voting rights but do not have cash dividend rights. See Employee stock based compensation plans under footnote 8 for further discussion on the first two components of the Executive Compensation Plan. The final plan component consists of cash incentive payments awarded to each participant in an amount equal to the excess of each awardee's allocable portion of the total payment amount over the aggregate value of the awardee's restricted common stock and nonqualified option awards under the plan.

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On September 8, 2015, the Board designated the share distribution of CSWI as a transformative transaction for purposes of the spin-off compensation plan and amended the award agreements granted under the plan to provide for accelerated vesting of the awards held by a participant in the event of a termination of such participant's service effected by the participant for good reason, by the employer without cause, or as a result of the disability or death of the participant. On September 30, 2015, we completed the tax-free spin-off of CSWI through a pro-rata share distribution of CSWI's common stock to CSWC shareholders of record on September 18, 2015.

Effective immediately with the spin-off of CSWI, both Joseph B. Armes and Kelly Tacke became employees of CSWI and Bowen Diehl, our President and Chief Executive Officer, continued to be an employee of our Company. The Company entered into an Employee Matters Agreement with CSWI. Under this agreement, we retained the cash incentive awards granted under the Spin-off Compensation Plan, and all liabilities with respect to such cash incentive awards remained liabilities of CSWC. The equity based awards vesting terms are as follows: (1) 1/3 on December 29, 2015; (2) 1/3 on December 29, 2016; and (3) 1/3 on December 29, 2017. Entitlement to such awards is conditioned on the awardee continuing employment by either our Company or the Company's spun-off subsidiary (CSWI).

The total value accretion was six percent of the aggregate appreciation in the Company's share price from \$36.16 to the combined volume-weighted average prices of both CSWC and CSWI stock as of December 29, 2015. The cash component of the spin-off compensation plan was the difference between the total value accretion and the aggregate value of the awardee's restricted common stock and non-qualified option awards under the plan. The total cash liabilities for three participants under the plan totaled \$6,115,093, of which \$2,051,698 was fully vested as of December 29, 2015, and it was subsequently paid out in January 2016. The remaining two payments will be fully vested on December 29, 2016 and December 29, 2017. During the three months ended December 31, 2015, we recognized the cash component of spin-off compensation expense of \$461,298, which represented cash component of spin-off compensation for our current employee. During the nine months ended December 31, 2015, we recognized the cash component of spin-off compensation expense of \$1,131,057, which represent cash component of spin-off compensation for our current employee and two transferred employees to CSWI prior to the spin-off of CSWI.

8.EMPLOYEE STOCK BASED COMPENSATION PLANS

Stock Options

On July 20, 2009, shareholders approved our 2009 Stock Incentive Plan (the "2009 Plan"), which provides for the granting of stock options to employees and officers and authorizes the issuance of common stock upon exercise of such options for up to 560,000 shares. All options are granted at or above market price, generally expire up to 10 years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five annual installments.

On August 28, 2014, our Board of Directors amended the 2009 Plan, as permitted pursuant to Section 18 of the 2009 Plan (the "First Amendment to the 2009 Plan"). The First Amendment to the 2009 Plan provides that an award agreement may allow an award to remain outstanding after a spin-off or change in control of one or more wholly-owned subsidiaries of the Company. In addition, on August 28, 2014, options to purchase 259,000 shares at \$36.60 per share were granted under the 2009 Plan, as amended. On September 8, 2015, the Board designated the Share Distribution as a transformative transaction for purposes of the plan and amended the award agreements granted under the plan to provide for accelerated vesting of the awards held by a participant in the event of a termination of such participant's service effected by the executive for good reason, by the employer without cause, or as a result of the disability or death of the participant. A third of these options were vested on December 29, 2015, and the rest of the options will vest on December 29, 2016 and December 29, 2017, respectively.

We previously granted stock options under our 1999 Stock Option Plan (the "1999 Plan"), as approved by shareholders on July 19, 1999. The 1999 Plan expired on April 19, 2009. Options previously granted under our 1999 Plan and

outstanding continue in effect and are governed by the provisions of the 1999 Plan. All options granted under the 1999 Plan were granted at market price on the date of grant, generally expire up to 10 years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five to ten annual installments.

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At September 30, 2015, in connection with the spin-off of CSWI, we entered into an Employee Matters Agreement with CSWI, which provided that each CSWC option that is outstanding immediately prior to September 30, 2015, shall be converted into both a Post-Separation CSWC Option and a CSWI Option and shall be subject to substantially the same terms and conditions (including with respect to vesting and expiration) after the September 30, 2015. Certain adjustments, using volumetric weighted-average prices for the 10-day period immediately prior to and immediately following the distribution, were made to the exercise price and number of shares of CSWC subject to such awards, with the intention of preserving the economic value of the awards immediately prior to the distribution for all CSWC employees. We compared the fair market value of our stock options on the day of the spin-off with the combined fair value of our stock options and CSWI stock options the day after the completion of the spin-off transaction. The distribution-related adjustments did not have a material impact on compensation expense for the nine months ended December 31, 2015.

At December 31, 2015, there are options to acquire 368,487 shares of common stock outstanding. The Compensation Committee does not intend to grant additional options under the 2009 Stock Incentive Plan or request shareholders' approval of additional stock options to be added under the 2009 Stock Incentive Plan.

The following table summarizes activity in the 2009 Plan and the 1999 Plan as of December 31, 2015 as well as adjustments in connection with the spin-off of CSWI:

| | Number of Options | Weighted Average Exercise Price |
|------------------------------|-------------------------|--|
| <u>2009 Plan</u> | | |
| Balance at March 31, 2013 | 170,908 | \$ 22.37 |
| Granted | 85,000 | 35.25 |
| Exercised | (69,108) | 22.27 |
| Canceled/Forfeited | (63,000) | 22.08 |
| Balance at March 31, 2014 | 123,800 | 31.40 |
| Granted | 259,000 | 36.60 |
| Exercised | (6,800) | 23.95 |
| Canceled/Forfeited | (4,000) | 23.95 |
| Balance at March 31, 2015 | 372,000 | 35.24 |
| Granted | — | — |
| Exercised | (8,000) | 19.18 |
| Canceled/Forfeited | — | — |
| Spin-off adjustments | (1,487)* | NA |
| Balance at December 31, 2015 | 362,513 | \$ 11.21 * |

| | | |
|---------------------------|-----------|----------|
| <u>1999 Plan</u> | | |
| Balance at March 31, 2013 | 246,000 | \$ 33.00 |
| Granted | — | — |
| Exercised | (108,000) | 30.37 |
| Canceled/Forfeited | (100,000) | 38.25 |
| Balance at March 31, 2014 | 38,000 | 26.68 |
| Granted | — | — |
| Exercised | (22,000) | 29.10 |
| Canceled/Forfeited | — | — |
| Balance at March 31, 2015 | 16,000 | 23.37 |
| Granted | — | — |

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| | | | |
|---------------------------------------|-----------|----------|---|
| Exercised | (10,000) | 23.37 | |
| Canceled/Forfeited | — | — | |
| Spin-off adjustments | (26)* | NA | |
| Balance at December 31, 2015 | 5,974 | \$ 7.36 | * |
| Combined Balance at December 31, 2015 | 368,487 | \$ 11.15 | * |

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| | Weighted Average | Aggregate Intrinsic |
|--|------------------|------------------------|
| December 31, 2015 Remaining Contractual Term | | Value |
| Outstanding | 2.1 years | \$2,457,760 |
| Exercisable | 1.8 years | \$884,671 |

*Certain adjustments were made to the exercise price and number of shares of Capital Southwest awards using volumetric weighted-average prices for the 10-day period immediately prior to and immediately following the distribution with the intention of preserving the economic value of the awards immediately prior to the distribution for all Capital Southwest employees.

We recognize compensation cost using the straight-line method for all share-based payments. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the requisite service period of the related stock options. Accordingly, for the three months ended December 31, 2015 and December 31, 2014, we recognized stock option compensation expense of \$59,750 and \$58,623, respectively. For the nine months ended December 31, 2015 and December 31, 2014, we recognized stock option compensation expense of \$355,604 and \$185,834, respectively.

As of December 31, 2015, the total remaining unrecognized compensation cost related to non-vested stock options was \$451,040, which will be amortized over the weighted-average vesting period of approximately 2.1 years. During the quarter ended December 31, 2015, we recognized stock-based compensation awards that are held by our employees.

At December 31, 2015, the range of exercise prices was \$7.36 to \$11.66 and the weighted-average remaining contractual life of outstanding options was 2.1 years. The total number of shares of common stock exercisable under both the 2009 Plan and the 1999 Plan at December 31, 2015 was 128,805 shares with a weighted-average exercise price of \$10.86. During the quarter ended December 31, 2015, 85,981 shares were vested and no options were exercised. During the quarter ended December 31, 2014, no options were exercised.

Stock Awards

Pursuant to the Capital Southwest Corporation 2010 Restricted Stock Award Plan ("2010 Plan"), our Board of Directors originally reserved 188,000 shares of restricted stock for issuance to certain of our employees. At our annual shareholder meeting in August 2015, our shareholders approved an increase of an additional 450,000 shares to our 2010 Restricted Stock Award Plan. A restricted stock award is an award of shares of our common stock, which generally have full voting and dividend rights but are restricted with regard to sale or transfer. Restricted stock awards are independent of stock grants and are generally subject to forfeiture if employment terminates prior to these restrictions lapsing. Unless otherwise specified in the award agreement, these shares vest in equal annual installments over a four to five-year period from the grant date and are expensed over the vesting period starting on the grant date.

On August 28, 2014, our Board of Directors amended the 2010 Plan, as permitted pursuant to Section 14 of the 2010 Plan (the "First Amendment to the 2010 Plan"). The First Amendment to the 2010 Plan provides that an award agreement may allow an award to remain outstanding after a spin-off or change in control of one or more wholly-owned subsidiaries of CSWC. In addition, on August 28, 2014, the Board of Directors granted 127,000 shares of restricted stock under the Spin-Off Compensation Plan.

On September 30, 2015, we completed the spin-off of CSWI. CSWI is now an independent publicly traded company. CSWI's common stock trades on the Nasdaq Stock Market under the symbol "CSWI." The Share Distribution was effected through a tax-free, pro-rata distribution of 100% of CSWI's common stock to shareholders of our Company. Each holder of an outstanding Capital Southwest Restricted Stock Award immediately prior to the Distribution Date received, as of the Distribution Date, a CSWI Restricted Stock Award for such number of CSWI Shares as is determined in the same way as if the outstanding Capital Southwest Restricted Stock Award comprised fully vested Capital Southwest Shares as of the Distribution Date.

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Restricted stock awards previously granted under the Spin-Off Compensation Plan vest and become exercisable as follows: (1) 1/3 on December 29, 2015; (2) 1/3 on December 29, 2016; and (3) 1/3 on December 29, 2017.

Entitlement to such awards is conditioned on the awardee remaining in the employment of either our company or continuing employment by the Company's spun-off subsidiary (CSWI).

In November 2015, our Board granted an additional 143,000 shares of restricted stock to employees. These shares vest in equal annual installments over a four-year period.

The following table summarizes the restricted stock available for issuance for the nine months ended December 31, 2015:

| | |
|---|-----------|
| Restricted stock available for issuance as of March 31, 2015 | 31,240 |
| Additional restricted stock approved under the plan | 450,000 |
| Restricted stock granted during the nine months ended December 31, 2015 | (143,000) |
| Forfeiture of restricted stock | 1,800 |
| Restricted stock available for issuance as of December 31, 2015 | 340,040 |

We expense the cost of the restricted stock awards, which is determined to equal the fair value of the restricted stock award at the date of grant on a straight-line basis over the requisite service period. For these purposes, the fair value of the restricted stock award is determined based upon the closing price of our common stock on the date of the grant. Due to the spin-off transaction, the Company evaluated the value of the CSWC stock awards pre spin-off and the combined value of CSWC stock awards post spin-off and CSW Industrials, Inc. stock awards and recorded additional incremental stock based compensation expenses.

For the nine months ended December 31, 2015 and 2014, we recognized total share based compensation expense of \$567,658 and \$101,214, respectively, related to the restricted stock issued to our employees and officers. For the quarter ended December 31, 2015 and 2014, we recognized total share based compensation expense of \$135,003 and \$36,001, respectively related to the restricted stock issued to our employees and officers.

As of December 31, 2015, the total remaining unrecognized compensation expense related to non-vested restricted stock awards was \$2,646,693, which will be amortized over the weighted-average vesting period of approximately 3.1 years.

The following table summarizes the restricted stock outstanding as of December 31, 2015:

| | Number of Shares | Weighted Average Fair Value Per Share at grant date | Weighted Average Remaining Vesting Term (in Years) |
|-------------------------------|------------------------|---|---|
| Restricted Stock Awards | | | |
| Unvested at March 31, 2015 | 142,960 | \$ 17.07 | 2.6 |
| Granted | 143,000 | — | — |
| Vested | (43,333) | — | — |
| Forfeited | (1,800) | — | — |
| Unvested at December 31, 2015 | 240,827 | \$ 15.95 | 3.1 |